

## Message Text

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E.O. 11652: N/A

TAGS: ENRG, OECD

SUBJECT: STATEMENT BY ASSISTANT SECRETARY ENDERS TO IEA  
GOVERNING BOARD FEBRUARY 5, 1975

FOLLOWING IS STATEMENT DELIVERED BY ASSISTANT SECRETARY  
ENDERS TO IEA GOVERNING BOARD AT 6:00 P.M. FEB. 5:

QUOTE:

1. FROM THE VERY START, IN THE ECG AND NOW IN THE IEA,  
WE HAVE ALL BEEN CONSCIOUS OF THE FACT THAT EVERY PHASE  
OF OUR WORK IS INTER-RELATED. WE STARTED OUT WITH EMER-  
GENCY PLANNING KNOWING VERY WELL THAT IT WOULD NOT BE  
EFFECTIVE UNLESS VALIDATED BY A PROGRAM FOR REDUCTION IN  
IMPORT DEPENDENCY. WE HAVE STARTED IN RECENT MONTHS TO  
WORK ON CONSERVATION AND ALTERNATIVE SUPPLIES, KNOWING AT  
THE SAME TIME THAT THIS WORK WAS NOT AN END IN ITSELF BUT  
WAS ESSENTIAL TO THE GOAL OF CREATING A STABLE RELATION-  
SHIP WITH PRODUCERS, A RELATIONSHIP WHICH COULD NOT BE  
EXPLOITED BY ONE SIDE OR THE OTHER, A RELATIONSHIP WHICH,  
OVER A PERIOD OF TIME, WOULD REFLECT A POLITICAL AND  
ECONOMIC EQUILIBRIUM.

2. I THINK WE HAVE ALSO BEEN AWARE SINCE THE START OF  
WORK IN THE ECG THAT WE ARE DEALING HERE WITH A UNIQUE  
SET OF RELATIONSHIPS AMONG THE INTERESTS OF OUR COUN-  
TRIES. THERE ARE COMPETITIVE ASPECTS. EACH COUNTRY IN  
THIS GROUP IS, OF COURSE, CONCERNED ABOUT ITS ECONOMIC  
RELATIONSHIPS WITH THE PRODUCING COUNTRIES AND WE HAVE  
ALL BEEN TEMPTED TO DEVELOP OUR BILATERAL RELATIONS  
WITH THE PRODUCERS IN OUR EFFORTS TO RESOLVE THIS CRISIS.  
IT IS ALSO TRUE THAT WE HAVE BEEN STRUCK BY THE COMPLE-  
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MENTARITIES IN OUR INTEREST. ACTIONS TAKEN BY ANY ONE  
COUNTRY HAVE AN ENORMOUS EFFECT ON OTHER COUNTRIES. WE  
COULD SEE THAT BILATERAL EFFORTS COULD VERY EASILY RESULT  
IN DAMAGE TO ALL. CONVERSELY, WE HAVE SEEN ON THE  
POSITIVE SIDE THAT ACTIONS TAKEN BY ONE COUNTRY TO CON-  
SERVE OIL OR DEVELOP ALTERNATIVE SOURCES OF ENERGY  
BENEFITS THE GROUP AS A WHOLE.

3. I WOULD LIKE TO TALK FIRST ABOUT THE BALANCE OF INTERESTS AMONG THE GROUP AND THE WAY IN WHICH IT CAN BE REACHED ON THE KEY ELEMENTS OF CONSERVATION AND ALTERNATIVE SUPPLIES. SECONDLY, I WOULD LIKE TO TALK ABOUT RELATIONS WITH PRODUCERS AND THE NEW EQUILIBRIUM WE ARE TRYING TO ACHIEVE.

4. IN THE DISCUSSION WE HAVE JUST HAD ON CONSERVATION WE HAVE COME CLOSE TO AGREEING ON A TARGET FOR 1975, AND, PRESUMABLY, WE WILL COME MUCH CLOSER IN THE FUTURE TO SOME ROUGH NOTION ABOUT HOW WE SHOULD SHARE THE BURDEN OF CONSERVATION PROGRAMS. BUT, AS WE LOOK TO ALTERNATIVE SUPPLIES, WE HAVE NO READY RULE, NO GENERAL PRINCIPLE OF EQUITY, TO FALL BACK ON. SEVERAL POINTS ARE APPARENT, HOWEVER.

5. FIRST, ALL COUNTRIES HAVE SOME OPPORTUNITIES FOR ALTERNATIVE ENERGY DEVELOPMENT. ALL HAVE NUCLEAR ENERGY, SOME HAVE FOSSIL FUEL AND HYDRO-ELECTRIC OPPORTUNITIES.

6. SECONDLY, THOSE COUNTRIES THAT HAVE THE LARGEST ENERGY OPPORTUNITIES, AND THEREFORE THE LARGEST POSSIBILITIES TO BECOME SECURE IN ENERGY SUPPLY, ALSO HAVE

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THE GREATEST DEMAND FOR CAPITAL INVESTMENT, AND THIS, IN  
TURN, HAS AN IMPACT ON THEIR ECONOMIC SITUATION. IN  
THE CASE OF THE US, OUR EXAMINATION OF OUR PRODUCTION  
POTENTIAL SUGGESTS THAT, IN CONTRAST TO PRESENT PRODUC-  
TION OF 11 MILLION BARRELS A DAY, WE COULD PHYSICALLY  
PRODUCE PERHAPS 20 MILLION BARRELS PER DAY BY 1985 IF  
WE MAKE A MAXIMUM EFFORT. WHETHER THIS COULD BE ACCOM-  
PLISHED ECONOMICALLY IS ANOTHER QUESTION. TO GO TO  
THAT LEVEL OF PRODUCTION COULD INVOLVE AN INVESTMENT OF  
AS MUCH AS ONE-HALF TRILLION DOLLARS. OTHER COUNTRIES  
TOO FACE ENORMOUS ENERGY INVESTMENT COSTS.

7. THE THIRD IMPORTANT POINT IS THAT ACTIONS TAKEN BY

ANY OF US TO LESSEN OUR DEMAND FOR IMPORTED OIL DIRECTLY BENEFIT IN THE SAME PROPORTION OTHER MEMBERS OF GROUP IN TERMS OF THE CHANGE IN GLOBAL SUPPLY/DEMAND BALANCE. THUS EFFECTIVE EFFORT IN THIS AREA CAN SHIFT THE BALANCE IN THE WORLD ENERGY MARKET, PREPARING THE WAY FOR A REDUCTION IN PRICE.

8. THE REVERSE OF THIS IS THAT THE ACTIONS OF SOME MEMBERS OF THE GROUP CAN NEGATE OTHER MEMBER COUNTRIES' EFFORTS AT ACHIEVING GREATER SELF-SUFFICIENCY. MAJOR INVESTMENTS BY ONE OF US IN DEVELOPING NEW SUPPLIES AND MOVING TOWARD ENERGY SELF-SUFFICIENCY CAN BE OFFSET BY INCREASES IN CONSUMPTION BY OTHERS, THUS TENDING TO NULLIFY THE EFFECT ON THE GROUP AS A WHOLE.

9. THEREFORE IT SEEMS TO US THAT WE SHOULD IN THE NEXT DAYS TRY TO EXAMINE REALISTICALLY AND OBJECTIVELY HOW OUR INTERESTS INTER-RELATE AND HOW FAR WE CAN GO ON THIS LIMITED OFFICIAL USE

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CRUCIAL ELEMENT OF ALTERNATIVE SUPPLIES IN REDUCING NET DEMAND FOR OPEC OIL IN THE FUTURE.

10. WE HAVE TRIED TO ANALYZE AND CONSIDER VARIOUS WAYS AND DEVICES BY WHICH THESE INTER-RELATED AND COMPLEMENTARY INTERESTS COULD BE RECONCILED. ONE MEASURE THAT IMMEDIATELY RECOMMENDS ITSELF IS THE ADOPTION BY EACH COUNTRY, ACCORDING TO ITS OPPORTUNITIES AND ACCORDING TO ITS BUDGETARY CAPACITY, OF A SERIES OF SUBSIDIES OR INDUCEMENTS TO INVESTMENT IN ALTERNATIVE SUPPLIES. UNDER THIS PROPOSAL WE COULD SEE COUNTRIES EXPLOITING THEIR ALTERNATIVE SUPPLY OPPORTUNITIES IN VERY DIFFERENT WAYS, SOME HAVING DEFICIENCY PAYMENTS, OTHERS EMPLOYING PRICE GUARANTEES OR SOME SORT OF INVESTMENT INSURANCE CRITERIA. THIS COULD ALMOST BE ON A PLANT-BY-PLANT BASIS. THE VIRTUE OF THIS APPROACH IS THAT WE COULD EACH FINE-TUNE OUR POLICIES TO REFLECT NATIONAL OPPORTUNITIES. BUT THE DRAWBACK IS THAT THERE IS NO PRINCIPLE OF EQUITY INVOLVED AGAINST WHICH OUR OVERALL COOPERATIVE EFFORT COULD BE MEASURED. THERE WOULD BE NO WAY TO KNOW WHAT OTHER COUNTRIES ARE DOING OR WILL DO, NO STANDARD BY WHICH WE COULD BALANCE OUR INTERESTS. THIS WOULD IN EFFECT BE NOTHING MORE THAN A "BUSINESS AS USUAL" APPROACH TO OUR PROBLEM. THAT IS NOT TO SAY IT IS BAD, BUT ONLY TO SAY THAT IT IS VERY LIKELY TO BE INADEQUATE TO OUR NEEDS.

11. THE SECOND MODEL WOULD BE TO BUILD ON THE FIRST MODEL BY ESTABLISHING A GIVEN PRICE FOR ENERGY FOR THE GROUP AS A WHOLE AND AGREEING THAT WE WILL PROVIDE

DEFICIENCY PAYMENTS OR SUBSIDIES TO INDIVIDUAL ENERGY INDUSTRIES SO THAT, SHOULD THE INTERNATIONAL PRICE OF OIL BE LESS THAN THE GIVEN PRICE, WE WOULD ALL BE COMMITTED TO MAKE UP THIS DIFFERENCE IN DEFICIENCY PAYMENTS. THIS WOULD PROVIDE AN INTERNATIONAL STANDARD BY WHICH WE COULD JUDGE WHAT EACH COUNTRY WOULD LIKELY DO IN THE FUTURE, AND SOME IDEA COULD EMERGE OF THE TOTAL VOLUME OF ENERGY SOURCES THAT COULD BE BROUGHT ON LINE.

12. THERE IS AN ELEMENT OF FINE-TUNING IN THIS APPROACH WHICH IS ATTRACTIVE, BUT THERE ARE ALSO TWO DRAWBACKS. LIMITED OFFICIAL USE

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FIRST IT WOULD INVOLVE AN EXTRAORDINARY DEGREE OF GOVERNMENT INTERVENTION. WE WOULD HAVE TO ENGAGE IN A MAMMOTH COST-ACCOUNTING EFFORT FOR PROBABLY THOUSANDS OF FIRMS AND WOULD HAVE TO BE PREPARED TO SUBSIDIZE INEFFICIENT ENTERPRISES WITHOUT THERE BEING ANY REAL CHECK ON THEM FROM THE MARKET.

13. THE SECOND MAJOR DISADVANTAGE, AND PERHAPS MORE IMPORTANT, IS THAT IF WE ADOPTED THIS SYSTEM OF DEFICIENCY PAYMENTS WE WOULD HAVE NO WAY TO PREVENT CONSUMERS FROM STARTING ONCE AGAIN TO ESCALATE THEIR

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CONSUMPTION OF ENERGY IF INTERNATIONAL OIL PRICES  
DROPPED DRASTICALLY. WE KNOW THE DEMAND FOR OIL IS  
ELASTIC. UNDER THIS SYSTEM WE WOULD STIMULATE SUPPLIES  
ON A LARGE SCALE AND BUILD UP LARGE BUDGET DEFICITS TO  
FINANCE THEM.

14. AND THEN WE HAVE LOOKED AT A THIRD POSSIBILITY.  
THAT IS THE POSSIBILITY THAT WE ADOPT A DIFFERENTIATED

APPROACH -- ONE COMBINING ELEMENTS OF AN INTERNATIONAL COMMITMENT ON PRICE AND AN AD HOC APPROACH FOR CASES WHERE THE COSTS INVOLVED ARE VERY LARGE OR ARE LIKELY TO EVOLVE IN VERY UNSTABLE WAYS. THUS, THERE WOULD BE A GENERAL ELEMENT OF COMPENSATION AS A BASIC PRICE COMMITMENT -- A FLOOR OR SAFETY NET. THAT SAFETY NET WOULD BE DESIGNED TO MAKE SURE THAT INCOMING OIL COULD NOT COMPETE WITH OUR BASIC ENERGY EFFORTS IN A DESTRUCTIVE MANNER. IT WOULD BE DESIGNED AS A SAFEGUARD TO CONVENTIONAL NUCLEAR PLANTS AND CONVENTIONAL FOSSIL FUEL EXPLOITATION. AT THE SAME TIME WE WOULD PROVIDE INCENTIVES FOR INVESTMENT IN THE MORE EXPENSIVE ENERGY SOURCES, INCLUDING, IN PARTICULAR, SYNTHETIC FUELS. BUT THERE COULD BE A NUMBER OF OTHER POSSIBLE ENERGY SOURCES AS WELL UNDER WHICH SPECIFIC MEASURES SUCH AS DEFICIENCY PAYMENTS OR SUBSIDY ARRANGEMENTS WOULD BE MOST APPROPRIATE AND COULD BE EMPLOYED.

15. FINALLY, WE HAVE LOOKED AT A FOURTH ALTERNATIVE PROPOSAL AND ONE WHICH MAY HAVE SOME PARTICULAR ATTRAC- TIONS. UNDER THIS PROPOSAL, THE IEA COUNTRIES WOULD UNDERTAKE TO GRANT A GENERAL MEASURE OF PROTECTION, SAY \$2 OR \$3 A BARREL, TO THE INDUSTRY AS A WHOLE IN THE LIMITED OFFICIAL USE

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FORM OF A COMMON TARIFF. THIS PROTECTION COULD AND WOULD APPLY AT MODERATE AS WELL AS LOW PRICE LEVELS. THE PURPOSE WOULD BE TO MAKE SURE THAT THERE WAS A MAXIMUM EXPLOITATION OF ENERGY RESOURCES IN THE GROUP WITHOUT, ON THE OTHER HAND, REMOVING ALTOGETHER THE PRICE RISK FOR INVESTORS IN ENERGY EXPLOITATION.

16. NOW, EACH OF THESE PROPOSALS WOULD HAVE A DIFFERENT EFFECT ON OUR COUNTRIES' ENERGY OPPORTUNITIES, DEPENDING ON OUR INDIVIDUAL DEGREE OF DEPENDENCE AND DEGREE OF ACCELERATED DEVELOPMENT POTENTIAL. ALSO, EACH WOULD HAVE A DIFFERENT EFFECT, DEPENDING ON THE LEVEL OF PRO-TECTION CHOSEN. I THINK IT WOULD BE FAIR TO SAY THAT THE FIRST PROPOSAL IS THE ONE THAT FAVORS MOST THOSE COUNTRIES THAT HAVE RELATIVELY FEW FOSSIL FUEL OPPORTUNITIES. THIS IS A PROPOSAL IN WHICH EACH COUNTRY WOULD TAKE ITS OWN SUPPLIES AND WOULD BE FREE TO BENEFIT FROM ANY CHANGE IN THE PRICE RESULTING FROM OTHER COUNTRIES' ACCELERATED DEVELOPMENT EFFORTS WITH A MINIMUM OF OBLIGATIONS. THE SECOND ALTERNATIVE WOULD INVOLVE A DIFFERENT BALANCE OF COSTS AND BENEFITS, WITH RESOURCE-RICH COUNTRIES STILL CARRYING NEARLY ALL THE BURDEN. THE THIRD AND FOURTH ALTERNATIVES MOVE FURTHER IN SHIFTING RELATIVE COSTS AND BENEFITS, DEPENDING ON THE LEVEL OF PROTECTION ADOPTED. IN EFFECT, HOWEVER,



THE ONLY DEGREE OF FREEDOM GIVEN UP BY THE RESOURCE-  
POORER COUNTRIES UNDER THE THIRD AND FOURTH APPROACHES  
WOULD BE THE POSSIBILITY OF PASSING ALL THE BENEFITS OF  
A BREAK IN WORLD PRICES THROUGH TO THEIR DOMESTIC  
ECONOMIES. THEY WOULD RETAIN THE FREEDOM TO CAPTURE  
THE BALANCE OF PAYMENTS AND REVENUE BENEFITS OF A PRICE  
BREAK. THESE TWO APPROACHES OFFER THE BENEFIT OF PRO-  
VIDING A REASONABLE STANDARD AGAINST WHICH WE CAN  
GAUGE OUR INDIVIDUAL EFFORTS.

17. I KNOW THE CHOICES HERE ARE CLEARLY VERY DIFFICULT  
FOR EVERY COUNTRY. BUT WE BELIEVE THAT UNLESS WE HAVE  
REACHED AN UNDERSTANDING AS TO HOW WE ARE TO PROCEED  
ON THIS QUESTION BEFORE FORMULATING OUR APPROACH TO  
THE PRODUCERS, WE RUN A SERIOUS RISK FOR THE FUTURE OF  
OUR SOLIDARITY. WE HAVE AN IMPORTANT SHARING AGREE-  
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MENT BEHIND US. BUT WE CLEARLY MUST VALIDATE IT BY  
TAKING DECISIONS ON THESE FUNDAMENTAL POLICIES. THIS  
IS THE MEANING OF THE PROPOSALS PUT FORWARD BY  
SECRETARY KISSINGER.

18. RELATIONS WITH PRODUCERS: WE HAVE AHEAD OF US THE  
PROSPECT OF WHAT ONE MIGHT CALL A ROLLER COASTER  
SCENARIO. WE HAVE HAD IN THE PAST VERY LOW PRICES,  
AND IN RESPONSE WE INCREASED OUR DEPENDENCE ON IMPORTED  
OIL. WE NOW HAVE VERY HIGH PRICES AND WE ARE VERY  
ACTIVELY ATTEMPTING TO DIMINISH OUR VULNERABILITY.

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THESE EFFORTS MAY POSSIBLY LEAD TO A PRICE BREAK; LOWER  
PRICES WOULD IN TURN LEAD TO A PERIOD OF RENEWED  
DEPENDENCY AND VULNERABILITY FOLLOWED BY A NEW CRISIS.

IT IS CLEARLY IN OUR INTEREST AND IN THE INTERESTS OF OPEC MEMBERS TO DO EVERYTHING IN OUR POWER TO AVOID THIS KIND OF DESTRUCTIVE CYCLE. WE SHOULD TRY TO DEVELOP A LONG-TERM RELATIONSHIP OF STABILITY AND MUTUAL BENEFIT. THIS, OF COURSE, DEPENDS ON THE EXISTENCE OF SOME FORM OF EQUILIBRIUM PRICE. AS WE SEE IT, AN EQUILIBRIUM PRICE SHOULD HAVE THE EFFECT OF DIMINISHING THE PRESENT OPEC SURPLUS TO ZERO, AND POSSIBLY REVERSING IT FOR THE TIME BEING, AND THEN RETURNING IT TO CLOSE TO ZERO INDEFINITELY.

19. THE EQUILIBRIUM PRICE MUST ALSO BE DETERMINED IN PART BY AND IS IN FACT DIRECTLY RELATED TO OUR DECISIONS TO BRING ON ALTERNATIVE SUPPLIES WITHIN THE GROUP. CLEARLY THERE CAN BE NO STABILITY BETWEEN OPEC AND OURSELVES IF TOTAL DEMAND FOR OPEC OIL IS NOT MADE CONSISTENT WITH FINANCIAL STABILITY AND WITH STABLE INVESTMENT IN ALTERNATIVE ENERGY SOURCES.

20. IF WE ADOPT THIS CONCEPT, WE THEN HAVE THE BASIS FOR A NEGOTIATION WITH OPEC. THAT NEGOTIATION WOULD CONSIST IN OFFERING TO OPEC THE POSSIBILITY OF SOME LONGER TERM SUPPLY ARRANGEMENTS AT A PRICE ABOVE HISTORICAL LEVELS BUT WELL BELOW PRESENT PRICES.

21. SUCH AGREEMENT WOULD ALSO HAVE TO CONTAIN A VERY CLEAR COMMITMENT FROM THE PRODUCERS NOT TO USE THE OIL WEAPON AS AN INSTRUMENT OF POLICY. SUCH AN AGREEMENT LIMITED OFFICIAL USE

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OBVIOUSLY WOULD HAVE TO BE RELATED TO THE LEVEL AT WHICH WE ARE WILLING TO SUSTAIN INVESTMENT IN OUR COUNTRIES IN ALTERNATIVE ENERGY SUPPLIES.

22. MR. CHAIRMAN, WE DO NOT SEE HOW IT IS POSSIBLE FOR THE CONSUMERS TO GO TO A CONFERENCE WITH THE PRODUCERS WITHOUT HAVING FACED UP TO THESE TWO ISSUES. AND I THINK IN THIS OUR VIEWS ARE SIMILAR TO THAT OF ALL MEMBERS OF THIS GROUP.

I THINK THAT IF WE ANALYSE OUR SITUATION CAREFULLY AND PRECISELY WE WILL FIND THE SAME COMPLEMENTARITIES AMONG OUR INTERESTS HERE THAT WE HAVE FOUND ELSEWHERE, IN SPITE OF THE PHYSICAL DIFFERENCES AMONG US AND THE DIFFERING PROSPECTS AMONG US FOR DEVELOPING NEW ENERGY SUPPLIES. IT MAY BE THAT THERE ARE OTHER DEVICES THAT COULD BE USED AS A VEHICLE FOR ESTABLISHING A BALANCE OF INTEREST WITHIN THE GROUP ON THIS ISSUE AND WE ARE PREPARED TO JOIN OTHERS IN EXPLORING THEM. SO FAR, HOWEVER, WE HAVE FOUND ONLY THESE FOUR TYPES OF POSSI-

BILITIES, TWO OF WHICH ARE CLEARLY INADEQUATE. WE  
BELIEVE THE OTHERS, FOR ALL THEIR DIFFICULTIES, ARE MORE  
PROMISING.  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750043-1095  
**From:** OECD PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1975/newtext/t19750266/aaaachrs.tel  
**Line Count:** 605  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 12  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 02 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <02 APR 2003 by MartinML>; APPROVED <03 APR 2003 by GolinoFR>  
**Review Markings:**

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US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** STATEMENT BY ASSISTANT SECRETARY ENDERS TO IEA GOVERNING BOARD FEBRUARY 5, 1975  
**TAGS:** ENRG, US, OECD, IEA, (ENDERS, THOMAS O)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006